

Alarm as white-collar jobs vanish overseas

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For years companies have been getting their manual work done more cheaply overseas. But now top-end professional work is going the same way, and that might be bad news back home. Peter Roberts reports.

There was a time when Sinclair Knight Merz would not have dreamed of performing high-level professional work for its Australian projects in any of its 20 overseas offices.

Today, having built up local skills, the engineering consultancy is increasingly comfortable sending building services design and drawing work to its Philippines office or relying on its high-rise building specialists in Malaysia.

"Our attitude is we have to think in terms of being a global business," SKM chief executive Paul Douglas says.

"It comes down to where you have the skills base and the capacity in your global offices to get the work done. Our emphasis is on following the skills, not on low cost."

The danger is a real one.

Recently the Prime Minister's Science, Engineering and Innovation Council began a behind-the-scenes evaluation of threats to Australia from the "emerging knowledge-based economies of China and India".

The council's draft report, a copy of which was obtained by the Australian Financial Review, says Australia needs to respond by investing in education and research and development, and by linking up with developing knowledge sectors in China and India.

There has been a steady progression up the value scale in work sent to low-cost countries – from manufacturing to data processing, call centres and computer software.

Now there is evidence that China and India are competing for high-level jobs in financial services, industrial design, architecture, research and development, engineering, medicine and even management areas such as human resources and business consulting.

"It is part of an overall process of globalisation," says Adelaide University geographer Graeme Hugo.

"It is just a ratcheting up of what began in the 1970s with the offshoring of manufacturing jobs because of labour costs."

The danger for all developed countries is that high-skill industries – till now our great competitive advantage – could be hollowed out in the way that low-skill ones have shifted offshore.

Russell Lansbury, a professor of industrial relations at Sydney University, says the trend already threatens to cause de-skilling in Australia; companies such as Qantas are looking at offshoring

high-skill aircraft maintenance work to Indonesia and China.

"One can see the situation where rather than importing the skills, we are exporting the jobs that need the skills," Mr Lansbury says. "That kind of trend is quite worrying."

Australia's skills shortage, especially in engineering – where graduations have been stuck at about 5000 a year for more than a decade despite a booming economy – is one factor that is accelerating the process of offshoring.

"We are doing work for some of the iron-ore miners in Manila," SKM's Mr Douglas says.

"The client understands there just aren't enough people (in Australia) to achieve the time line for completing the project that they want."

But just as important are the growing skills levels in low-cost countries. China alone graduated 219,563 engineers and 63,000 natural and computer scientists in 2001, according to engineering manpower consultant Michael Rice.

The recognition of increasing skills in South Africa is behind the letting of some R&D contracts to the University of Cape Town by Amira International, Australia's cooperative R&D broker representing the mining industry.

Marchese Partners Architects has found that the Chinese and Indonesian companies it uses to prepare the detailed drawings for major Australian residential projects now have an understanding of local regulations and client requirements that was missing in the past.

Basic drawings are 80 per cent completed overseas, with final details added at the company's Sydney office.

"The cost difference is significant. It certainly makes it worthwhile," Marchese general manager Steve Zappia says. "But it does rely on us to review and complete the drawings here."

While China has emerged as the magnet, attracting engineering and manufacturing-related services, India's language and educational advantages are helping develop a strong niche in outsourcing high-end financial services.

A leader, according to Ernst & Young managing partner Doug Simpson, is JPMorgan, which established a research centre in Mumbai in 2003 that supports global operations including Australia. The centre conducts company and derivatives research, provides credit ratings and has skills in portfolio and economic research.

A Morgan Stanley subsidiary in India similarly provides company research and financial modelling, and Deutsche Bank contracts Indian firm Infosys to provide analysis.

"This is a big lift from doing call centres," Mr Simpson says. "You are getting into real intellectual horsepower here."

The rise of multinational corporations is a factor in skills outsourcing. MNCs often designate a particular country or region as a centre of excellence in a field such as human resources or finance, concentrating high-skills jobs in those locations.

IBM operates under an offshoring model called "best shore", concentrating activities in global centres of excellence. Accounting, for example, is concentrated in India, China and Australia in this

region, according to a spokesman.

Accounting giant Deloitte is taking a different approach, building up its Indian business consulting research facility to support its international operations.

Adelaide University's Mr Hugo says that chasing careers within MNCs is a key reason more than 850,000 mainly highly qualified professional Australians have chosen to live overseas.

They are playing their part in an international labour market that is becoming increasingly attractive to Australian skilled labour.

"Countries like Australia have made it very easy for highly skilled people to move between countries," Mr Hugo says. "But at the other end of the scale, it is getting harder (for unskilled workers) to move between countries to find work."

Industrial design is another area where there are early signs of a hemorrhaging of skilled jobs offshore.

While operations such as GUD Holdings' Sunbeam division retained Australian design centres when manufacturing jobs were offshored, other small appliance brands are essentially Chinese-designed and manufactured.

"Lots of people just buy product right off the shelf and stick their badge on it," GUD managing director Ian Campbell says. "At the end of the day, they end up with a toaster that looks like a Russian tractor."

The director of consultants Design Resource, John Brown, says nuts-and-bolts design work can increasingly be sourced from low-cost countries.

This includes relatively simple CAD (computer-aided design) work, the resizing of existing products or value engineering work to reduce the amount of material used in a product.

"You can now get detailed engineering design done in these (low-cost) countries," he says.

"They are offering low-cost design in the same way as they are offering low-cost manufacturing. But the high-level conceptual design still needs to be managed by people with the knowledge of Western markets."

But even such assurances seem fragile as companies such as India's Tata Technologies position themselves to complete the design and engineering of entire automobiles for US manufacturers.

So far Australia has been a beneficiary of offshoring in automotive design: GMH, Ford and Holden have all been investing heavily in their R&D facilities and providing design and engineering to affiliates in Asia and, in GMH's case, the United States.

Certainly, globalisation can be a positive and a negative even in the same industry.

While American X-rays are routinely examined by "low-cost" specialists in Sydney, locals are increasingly being lured to South-East Asia to save money on medical procedures such as cosmetic surgery.

And while Deutsche Bank sources analysis work from India, it also employs 250 high-end Australian staff to support its global corporate service operations.

Some would argue that Australia will be a net beneficiary of the globalisation of skilled-labour markets.

However, US industry leaders such as the former CEO of defence contractor Lockheed Martin, Norman Augustine, are worried about the ability of that more powerful economy to prosper in the new era of skills outsourcing.

Mr Augustine told a recent US congressional inquiry that "only those jobs that require near-physical contact among the parties to a transaction will not be opened up for competition from job-seekers around the world".

Mr Augustine's recommendation was for the US to invest heavily in science, mathematics and engineering education and in R&D.

Unfortunately, Australia is performing poorly in those areas.

Students are shunning mathematics and science, engineering education is failing to keep pace with the demands of the economy, and R&D in business is being performed at a third of the rate of the leading research nations.

Whatever the bottom line for Australia, outsourcing of high-skilled jobs is here to stay.

"It is very much part of the future lexicon", Ernst & Young's Mr Simpson says. "The global economy is now moving in a direction that will make it easier to embrace. The game has moved beyond labour arbitrage. It is about the opportunity to get the best possible skills."



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